

**REDEVELOPMENT AGENCY OF
THE CITY OF ROCKLIN,
CALIFORNIA**

Audited Financial Statements
and Compliance Report

June 30, 2004

REDEVELOPMENT AGENCY OF
THE CITY OF ROCKLIN, CALIFORNIA

Audited Financial Statements
and Compliance Report

June 30, 2004

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Redevelopment Agency of the City of Rocklin, California

We have audited the basic financial statements of the Redevelopment Agency of the City of Rocklin, California (the Agency), as of and for the year ended June 30, 2004, as listed in the table of contents. These basic financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note A, the financial statements present only the Agency and are not intended to present fairly the financial position and results of operations of the City of Rocklin, California, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities of the Redevelopment Agency of the City of Rocklin, California, as of June 30, 2004, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 8, 2004, on our consideration of the Agency's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's discussion and analysis on pages 2 through 6 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Richardson & Company

November 8, 2004

Rocklin Redevelopment Agency
Component Unit Basic Financial Statements
For the year ended June 30, 2004

Management's Discussion and Analysis

This section of the Rocklin Redevelopment Agency (Agency) component unit financial statements presents management's discussion and analysis of the Agency's financial performance during the fiscal year ended June 30, 2004. Since this management's discussion and analysis is designed to focus on current activities, resulting change and current known facts, please read it in conjunction with the Agency's basic financial statements, and the footnotes.

I. Financial Highlights

At June 30, 2004, the Agency's net assets for governmental funds, increased to \$92,399 from (\$1,467,441) in 2003. This change in net assets of \$1,559,840 is a result of planned expenditures in the Special Revenue and Capital Project funds being delayed until the Fiscal Year 2004-2005.

II. Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Agency's basic financial statements. The Agency's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other required supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements. The Government-wide Financial Statements are designed to provide readers with a broad overview of the Agency's finances, in a manner similar to a private-sector business.

The Statement of Net Assets presents information on all of the Agency's assets and liabilities, with the difference between the two reported as net assets. The Agency, while a separate legal entity, acts as a financial conduit for the City and as such does not hold title to the assets it helps construct. Therefore, its net assets are not any indication of its financial health.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Fund Financial Statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Agency, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Agency can be divided into three categories: capital projects, debt service, and housing set-aside funds.

Capital Projects. Capital projects fund is used to account for the operating and capital expenditures of the agency, other than housing.

Rocklin Redevelopment Agency
Component Unit Basic Financial Statements
For the year ended June 30, 2004

Management's Discussion and Analysis

Debt Service. Debt service fund is used to account for the repayment of principal and interest on debt as well as pass thru obligations to other taxing agencies.

Housing Set-aside Fund. Housing set aside fund is used to account for the 20% of the tax increments that is required by State Law to be used for low and moderate income housing purposes.

The Agency adopts an annual appropriated budget for all of its funds. A budgetary comparison statement has been provided to demonstrate compliance with this budget.

Notes to the Basic Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the Government-Wide and Fund Financial Statements. The notes to the basic financial statements can be found on pages 14-22 of this report.

Compliance Report. In addition to the basic financial statements and accompanying notes, this report also presents a report on compliance and internal control. This report comments on the Agency's compliance with provisions of laws and regulations identified in the "Guidelines for Compliance Audits of California Redevelopment Agencies", issued by the State Controller. This report also addresses internal control over financial reporting.

The annual financial statements include the Independent Auditors' Report, this management's discussion and analysis, the basic financial statements, notes to basic financial statements, and compliance report.

III. Government-wide Financial Analysis

The largest portion of the Agency's net assets reflect amounts designated to be used as a funding source for capital projects (e.g., land, buildings, machinery, and equipment) within the Redevelopment Area. Unlike most other type of governmental bodies who provide day-to-day services, the main purpose of the Agency is to provide capital funds for the development of certain geographical areas of City.

Rocklin Redevelopment Agency
Component Unit Basic Financial Statements
For the year ended June 30, 2004

Management's Discussion and Analysis

IV. Financial Analysis of the Agency's Funds

As noted earlier, the Agency uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the Agency's Governmental Funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Agency's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. It should, however, be noted that most of the unreserved amounts have been designated by the Agency for specific uses.

The Agency is required by State law to set aside 20% of the tax revenue in a separate fund for low and moderate-income housing purposes. This fund had total revenue of \$580,322 and expenditures of \$57,474. The ending fund balance was \$2,096,518, which is an increase of \$522,848 from the prior year.

The debt service fund had total revenue of \$2,411,352, of which \$43,671 was interest earnings. The expenditures including debt service and pass thru payments to other taxing agencies amounted to \$2,844,254. The fund balance of \$3,022,671 is reserved for future debt service payments on the 1997 and 2002 issuances of tax allocation bonds.

The capital projects fund had revenues of \$579,081, of which \$229,558 represented interest earnings on the project funds that are invested with the City's pooled cash. State grant revenues in the amount of \$335,226 were received for the Multi Modal Train Station project. The expenditures amounted to \$353,128 for the Rocklin Multi Modal Train Station. The fund balance increased by \$212,130 at year-end. The entire fund balance consists of unexpended bond proceeds which are designated for upcoming capital projects within the Project Area.

V. Budgetary Highlights

The tax increment revenue was approximately 15% higher than budgeted. The variance in the capital outlay expenditure is due to delay of planned project expenditures.

There were no budget amendments in the current reporting period.

Rocklin Redevelopment Agency
Component Unit Basic Financial Statements
For the year ended June 30, 2004

Management's Discussion and Analysis

VI. Capital Asset and Debt Administration

Capital Assets. As of June 30, 2004, the Agency's capital assets were \$1,564,764. The major capital expenditures during the year were for the purchase of the Union Pacific Railroad property (\$135,516) and the Multi Modal Train Station (\$882,358).

Long-term Debt. At the end of the current fiscal year, the Agency had total bonded debt outstanding of \$16,180,000. All bonded debt of the Agency is secured by the tax increment revenues of the Agency.

Prior Yr. Pass-Through Debt. As part of the establishment of the City's Redevelopment Plan in 1986, the Agency agreed to pass-through a portion of any incremental taxes it collects through fiscal year 1997 to Placer County, the predecessor of the Agency as the taxing authority in the Redevelopment Area. The agreement was revised upon adoption of the Plan Amendment in 1997. Payments of the amounts accumulated began in 1998 and are to be made in equal annual installments over ten years, with interest at four percent. As of June 30th, 2004 the balance due on this debt was \$140,511.

The Agency's debt decreased by \$238,281 during the fiscal year. The decrease was the result of scheduled annual repayment of existing debt. The Agency did not issue any new bonds in 2003-04.

VII. Economic Factors and Next Year's Budgets

Since the Agency's primary source of revenue is tax increments, property values and new construction in the redevelopment area are the key economic factors that define the future resources of the agency. The area within the Agency is a mix of older commercial buildings and single family residences along with several undeveloped parcels. Most of the revenue growth for the Agency is expected to come from an increase in future construction and rehabilitation in the project area creating an increase in Assessed Values.

The anticipated tax increment for Fiscal Year 2004-2005 is \$2,603,700. Of this, \$520,700 (20%) will be set aside for the low-moderate housing fund to be used for housing projects and/or low interest loans for first time homebuyers.

The expenditures budgeted for the upcoming fiscal year include \$377,000 for compensation, \$2,284,600 for operating expenditures, and \$10,571,000 for capital projects to include rehabilitation of project area roadways and sidewalks, a drainage master plan, a pedestrian crossing for the Rocklin Train Depot, partial funding for the new Police Station construction, Dominquez Gym and partial funding of the Sierra College/I80 Interchange Right of Way construction.

Rocklin Redevelopment Agency
Component Unit Basic Financial Statements
For the year ended June 30, 2004

Management's Discussion and Analysis

VIII. Requests for Information

This financial report is designed to provide a general overview of the Redevelopment Agency's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Manager, 3970 Rocklin Road, Rocklin, California, 95677.

REDEVELOPMENT AGENCY OF
THE CITY OF ROCKLIN, CALIFORNIA

STATEMENT OF NET ASSETS AND GOVERNMENTAL FUNDS BALANCE SHEET

June 30, 2004

	Major Funds			Totals
	Redevelopment Agency Funds		Low/Moderate	
	Capital Projects	Debt Service	Income Housing Special Revenue Fund	
ASSETS				
Cash and cash equivalents	\$ 4,880,060	\$ 1,216,333	\$ 990,041	\$ 7,086,434
Receivables:				
Interest receivable	16,195			16,195
Taxes receivable		148,385		148,385
Notes receivable	20,645		1,113,397	1,134,042
Due from other governments	314,581	207,056		521,637
Restricted cash		1,674,386		1,674,386
Restricted investments	5,039,011			5,039,011
Capital assets, net				
TOTAL ASSETS	\$ 10,270,492	\$ 3,246,160	\$ 2,103,438	\$ 15,620,090
LIABILITIES				
Accounts payable	\$ 251,207	\$ 4,777	\$ 2,982	\$ 258,966
Accrued liabilities		7,191		7,191
Interest payable				
Due to the City of Rocklin		202,126		202,126
Compensated absences		9,395	3,938	13,333
Long-term liabilities:				
Due within one year				
Due in more than one year				
TOTAL LIABILITIES	251,207	223,489	6,920	481,616
FUND BALANCES/NET ASSETS				
Fund balances:				
Reserved for:				
Encumbrances	152,955	212		153,167
Notes receivable	20,645		1,113,397	1,134,042
Debt service		3,022,459		3,022,459
Low and moderate income housing			983,121	983,121
Capital projects	9,845,685			9,845,685
TOTAL FUND BALANCES	10,019,285	3,022,671	2,096,518	15,138,474
TOTAL LIABILITIES AND FUND BALANCES	\$ 10,270,492	\$ 3,246,160	\$ 2,103,438	\$ 15,620,090
Net assets:				
Invested in capital assets, net of related debt				
Restricted for debt service				
Restricted for community development				
Unrestricted				
TOTAL NET ASSETS				

The accompanying notes to component unit financial statements are an integral part of this statement.

Adjustments (Note G)	Statement of Net Assets
	\$ 7,086,434
	16,195
	148,385
	1,134,042
	521,637
	1,674,386
	5,039,011
\$ 1,564,764	1,564,764
1,564,764	17,184,854
	\$ 258,966
	7,191
290,327	290,327
	202,126
	13,333
245,012	245,012
16,075,500	16,075,500
16,610,839	17,092,455
(153,167)	
(1,134,042)	
(3,022,459)	
(983,121)	
(9,845,685)	
(15,138,474)	
1,564,764	1,564,764
3,022,671	3,022,671
2,096,518	2,096,518
(6,591,554)	(6,591,554)
\$ 92,399	\$ 92,399

REDEVELOPMENT AGENCY OF
THE CITY OF ROCKLIN, CALIFORNIA

STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS
REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES

For the Year Ended June 30, 2004

	Major Funds			Totals
	Redevelopment Agency Funds		Low/Moderate	
	Capital Projects	Debt Service	Income Housing Special Revenue Fund	
EXPENDITURES:				
Current:				
General government		\$ 556,815	\$ 28,792	\$ 585,607
Public works		71,479		71,479
Community development	\$ 353,128	26,562	28,682	408,372
Debt service:				
Principal retirement		238,281		238,281
Interest and fiscal charges		894,066		894,066
Capital outlay		1,017,874		1,017,874
TOTAL EXPENDITURES/EXPENSES	353,128	2,805,077	57,474	3,215,679
PROGRAM REVENUES:				
Operating grants and contributions	335,226	207,056		542,282
Other revenues	14,297		24,038	38,335
TOTAL PROGRAM REVENUES	349,523	207,056	24,038	580,617
NET PROGRAM EXPENSE				
GENERAL REVENUES:				
Tax increment revenue		2,136,164	546,641	2,682,805
Interest earnings	229,558	43,671	2,718	275,947
Intergovernmental		24,461	6,925	31,386
Transfers to the City of Rocklin	(13,823)	(39,177)		(53,000)
TOTAL GENERAL REVENUES AND TRANSFERS	215,735	2,165,119	556,284	2,937,138
EXCESS OF REVENUES OVER EXPENDITURES AND TRANSFERS OUT	212,130	(432,902)	522,848	302,076
CHANGE IN NET ASSETS				
FUND BALANCE/NET ASSETS:				
Beginning of year	9,807,155	3,455,573	1,573,670	14,836,398
END OF YEAR	\$ 10,019,285	\$ 3,022,671	\$ 2,096,518	\$ 15,138,474

The accompanying notes to component unit financial statements are an integral part of this statement.

<u>Adjustment</u> <u>(Note H)</u>	<u>Statement</u> <u>of Activities</u>
	\$ 585,607
	71,479
	408,372
\$ (238,281)	
(1,609)	892,457
<u>(1,017,874)</u>	
(1,257,764)	<u>1,957,915</u>
	542,282
	<u>38,335</u>
	<u>580,617</u>
	1,377,298
	2,682,805
	275,947
	31,386
	<u>(53,000)</u>
	2,937,138
	1,559,840
<u>(16,303,839)</u>	<u>(1,467,441)</u>
<u>\$ (16,303,839)</u>	<u>\$ 92,399</u>

REDEVELOPMENT AGENCY OF
THE CITY OF ROCKLIN, CALIFORNIA

STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
MAJOR FUNDS

For the Year Ended June 30, 2004

Redevelopment Fund - Capital Projects				
	Budgeted Amounts		Actual	Variance With
	Original	Final	Amounts	Final Budget
				Positive
				(Negative)
REVENUES:				
Tax increment revenue				
Use of money and property	\$ 280,000	\$ 280,000	\$ 229,558	\$ (50,442)
Intergovernmental revenues	250,000	250,000	335,226	85,226
Other revenues			14,297	14,297
TOTAL REVENUES	530,000	530,000	579,081	49,081
EXPENDITURES:				
Current:				
General government				
Public works				
Community development	3,331,600	3,331,600	353,128	2,978,472
Debt service:				
Principal retirement				
Interest and other charges				
Capital outlay				
TOTAL EXPENDITURES	3,331,600	3,331,600	353,128	2,978,472
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(2,801,600)	(2,801,600)	225,953	3,027,553
OTHER FINANCING USES:				
Transfers out to City funds	(112,400)	(112,400)	(13,823)	98,577
NET CHANGE IN FUND BALANCES	(2,914,000)	(2,914,000)	212,130	3,126,130
FUND BALANCES				
Beginning of year	9,807,155	9,807,155	9,807,155	
END OF YEAR	\$ 6,893,155	\$ 6,893,155	\$ 10,019,285	\$ 3,126,130

The accompanying notes to financial statements are an integral part of this statement.

Redevelopment Fund - Debt Service

Budgeted Amounts		Actual	Variance With Final Budget Positive (Negative)
Original	Final		
\$ 1,901,200	\$ 1,901,200	\$ 2,136,164	\$ 234,964
108,100	108,100	43,671	(64,429)
1,077,000	1,077,000	231,517	(845,483)
<u>3,086,300</u>	<u>3,086,300</u>	<u>2,411,352</u>	<u>(674,948)</u>
883,400	883,400	556,815	326,585
103,900	103,900	71,479	32,421
26,800	26,800	26,562	238
195,000	195,000	238,281	(43,281)
875,700	875,700	894,066	(18,366)
1,625,000	1,625,000	1,017,874	607,126
<u>3,709,800</u>	<u>3,709,800</u>	<u>2,805,077</u>	<u>904,723</u>
(623,500)	(623,500)	(393,725)	229,775
<u>(62,100)</u>	<u>(62,100)</u>	<u>(39,177)</u>	<u>22,923</u>
(685,600)	(685,600)	(432,902)	252,698
<u>3,455,573</u>	<u>3,455,573</u>	<u>3,455,573</u>	
<u>\$ 2,769,973</u>	<u>\$ 2,769,973</u>	<u>\$ 3,022,671</u>	<u>\$ 252,698</u>

REDEVELOPMENT AGENCY OF
THE CITY OF ROCKLIN, CALIFORNIA

STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
MAJOR FUNDS (Continued)

For the Year Ended June 30, 2004

Low/Moderate Income Housing Fund				
	Budgeted Amounts		Actual	Variance With Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Tax increment revenue	\$ 432,700	\$ 432,700	\$ 546,641	\$ 113,941
Use of money and property	50,100	50,100	2,718	(47,382)
Intergovernmental revenues			6,925	6,925
Other revenues			24,038	24,038
TOTAL REVENUES	482,800	482,800	580,322	97,522
EXPENDITURES:				
Current:				
General government	633,700	633,700	28,792	604,908
Public works				
Community development	62,600	62,600	28,682	33,918
Debt service:				
Principal retirement				
Interest and other charges				
Capital outlay				
TOTAL EXPENDITURES	696,300	696,300	57,474	638,826
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(213,500)	(213,500)	522,848	736,348
OTHER FINANCING USES				
Transfers out to City funds	(250,000)	(250,000)		250,000
NET CHANGE IN FUND BALANCES	(463,500)	(463,500)	522,848	986,348
FUND BALANCES				
Beginning of year	1,573,670	1,573,670	1,573,670	
END OF YEAR	\$ 1,110,170	\$ 1,110,170	\$ 2,096,518	\$ 986,348

The accompanying notes to financial statements are an integral part of this statement.

REDEVELOPMENT AGENCY OF
THE CITY OF ROCKLIN, CALIFORNIA

NOTES TO THE BASIC FINANCIAL STATEMENTS

June 30, 2004

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying summary of the more significant accounting policies of the Redevelopment Agency of the City of Rocklin (the Agency) is presented to assist the reader in interpreting the financial statements and other data in this report. The accounting policies of the Agency conform in all material respects to accounting principles generally accepted in the United States of America as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the more significant policies.

Reporting Entity: The Agency was organized pursuant to the Community Redevelopment Law of the California Health and Safety Code. The accounting methods and procedures adopted by the Agency conform to generally accepted accounting principles as applied to governmental entities.

The Agency is considered to be a component unit of the City of Rocklin (the City). These entities are legally separate from each other. However, the City elected officials have a continuing full or partial oversight responsibility over and accountability for fiscal matters of the Agency. As a result, the Agency is presented as a blended component unit within the City's financial statements.

The primary purpose of the Agency is to prepare and carry out plans for improvement, rehabilitation and redevelopment of blighted areas within the City. The Agency has one project area, which encompasses most of the City. The Agency's primary source of revenue comes from property taxes, referred to in the accompanying financial statements as "tax increment revenue." Section 333346 subdivision (c) of the California Health and Safety Code requires the Agency project areas to deposit 20% of allocated tax increment revenues into a Low and Moderate Income Housing Fund.

Basis of presentation - Government-wide Financial Statements: The government-wide financial statements (i.e. the statement of net assets and statement of activities) report information on all of the nonfiduciary activities of the Agency. For the most part, the effect of interfund activity has been removed from these statements. The Agency has only governmental activities, which are supported by taxes and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and grants and 2) contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Tax increment revenue and other items not properly included among program revenues are reported instead as general revenues.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements are met.

When both restricted and unrestricted resources are available for use, it is the Agency's policy to use restricted resources first, then unrestricted resources as they are needed.

Basis of presentation - Fund Financial Statements: The accounts of the Agency are organized on the basis of funds. A fund is a separate accounting entity with a self-balancing set of accounts. Each fund was established for the purpose of accounting for specific activities in accordance with applicable regulations, restrictions or limitations.

REDEVELOPMENT AGENCY OF
THE CITY OF ROCKLIN, CALIFORNIA

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2004

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Separate financial statements are provided for each governmental fund. All of the Agency's funds are considered to be major individual governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the Agency considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Tax increment revenue and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Governmental funds are used to account for the Agency's expendable financial resources and related liabilities. The Agency utilizes the following governmental fund types:

Special Revenue Fund: Special Revenue Funds are used to account for specific revenues that are restricted by law or administrative action to expenditures for particular purposes. The Agency's Special Revenue Fund consists of the following:

Low/Moderate Income Housing Fund: The Low/Moderate Income Housing Fund accounts for the 20% tax increment income, which will be used by the Agency for the purposes of increasing and improving the City's supply of housing for persons and families of very low or moderate income.

Debt Service Fund: Debt Service Funds are used to account for accumulation of resources for, and the payment of, principal and interest on general obligation bonds, tax increment bonds and certificates of participation. The Agency's debt service fund consists of the following:

Redevelopment Agency Debt Service: The Debt Service Fund is used to account for the repayment of principal and interest on the tax allocation bonds issued by the Agency, as well as pass-through obligations to other taxing agencies.

Capital Projects Funds: Capital Project Funds are used to account for financial resources used for the acquisition or construction of major capital facilities. The Agency's capital project fund consists of the following:

Redevelopment Agency Capital Projects: The Capital Projects Fund is used to account for redevelopment project costs.

Receivables and Payables: Tax increment revenue related to the current fiscal year are accrued as revenue and accounts receivable and considered available if received within 60 days of year-end. Federal and State grants are considered receivable and accrued as revenue when reimbursable costs are incurred under the accrual basis of

REDEVELOPMENT AGENCY OF
THE CITY OF ROCKLIN, CALIFORNIA

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2004

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

accounting in the government-wide statement of net assets. The amount recognized as revenue under the modified accrual basis is limited to the amount that is deemed measurable and available.

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans).

Restricted Assets: Certain proceeds of the Agency's long-term debt are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants.

Capital Assets: Capital assets for governmental fund types are not capitalized in the funds used to acquire or construct them. Capital acquisitions are reflected as an expenditure in the governmental fund, and the related assets are reported in the government-wide financial statements. Capital assets owned by the Agency are stated at historical cost, or estimated historical cost, if actual historical cost is not available, except for donated capital assets, which are recorded at their estimated fair value at the date of donation. The Agency has no depreciable assets as of June 30, 2004.

It is the Agency's policy to capitalize land, structures and improvements and equipment greater than \$5,000. Costs of assets sold or retired (and related amounts of accumulated depreciation) are eliminated from the accounts in the year of sale or retirement. The proceeds from the sale of capital assets is included in the statement of revenues, and changes in fund balances of the related fund. The proceeds reported in the governmental fund are eliminated and the gain or loss on sale is reported in the government-wide presentation.

Long-Term Debt: All long-term debt to be repaid from governmental resources are reported as liabilities in the government-wide statements. The long-term debt consists primarily of bonds payable. Long-term debt for governmental funds are not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as expenditures.

Fund Balance: Governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. At June 30, 2004, reservations of fund balances included:

Reserved for loans receivable – to reflect the portion of assets that do not represent available, spendable resources.

Reserved for debt service – to reflect the portion of fund balance legally restricted to make debt service payments.

Reserved for low/moderate housing – to reflect the portion of fund balance relating to State required low-to-moderate income housing.

Reserved for capital projects – to reflect the portion of fund balance legally restricted by bond indenture for capital projects.

REDEVELOPMENT AGENCY OF
THE CITY OF ROCKLIN, CALIFORNIA

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2004

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets: The government-wide financial statements utilize a net assets presentation. Net assets consist of the following:

Invested in capital assets, net of related debt – This category groups all capital assets into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of those assets reduce the balance in this category.

Restricted net assets – This category represents net assets with external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments; or restrictions imposed by law through constitutional provisions or enabling legislation.

Restricted for debt service – to reflect the portion of net assets legally restricted to make debt service payments.

Restricted for community development – to reflect the portion of net assets restricted for purposes of increasing and improving the City's supply of low/moderate income housing.

Unrestricted net assets – This category represents net assets of the Agency not restricted for any project or purpose.

Tax Increment Financing: Tax increment financing has been established pursuant to the California Community Redevelopment Law. It is defined as the excess of taxes levied and collected each year in a redevelopment project area over and above the amount which would have been produced, at current rates, by the assessed value shown on the assessment roll last equalized prior to the effective date of the ordinance of the City establishing the redevelopment project area. Such funds are restricted to pay the principal and interest on loans, monies advanced to, or indebtedness incurred by, the Agency to finance or refinance such redevelopment projects and are available to the Agency only after indebtedness, which is certified by the State of California, is incurred.

When the Agency's loans, advances and indebtedness, if any, together with interest thereon have been paid, all monies thereafter received from taxes upon the taxable property in such redevelopment project shall be paid into the funds of the respective taxing agencies.

Property Taxes: The County of Placer (the County) is responsible for the collection and allocation of property taxes. Under California law, property taxes are assessed and collected by the County up to 1% of the full cash value of taxable property plus other increases approved by the voters with statutory formulas. The Agency recognizes property taxes when the individual installments are due provided they are collected within 60 days after year end. Secured property taxes are levied on or before July 30 of each year. They become a lien on real property on January 1 preceding the fiscal year for which taxes are levied. These taxes are paid in two equal installments; the first is due November 1 and delinquent with penalties after December 10; the second is due February 1 and delinquent with penalties after April 10. Secured property taxes, which are delinquent and unpaid as of June 30, are declared to be tax defaulted and are subject to redemption penalties, cost, and interest when paid.

The Agency has elected to receive the property taxes from the County under the Teeter Bill. Under this program, the Agency receives 100% of the levied property taxes in periodic payments with the County assuming responsibility for the delinquencies.

REDEVELOPMENT AGENCY OF
THE CITY OF ROCKLIN, CALIFORNIA

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2004

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Budgetary Principles: As required by the laws of the State of California, the Agency prepares and legally adopts a final operating budget on or before July 1 of each fiscal year, which is prepared on the modified accrual basis of accounting. Supplemental appropriations, which increases appropriations, may be made during the fiscal year. All budget amounts presented in the accompanying financial statements have been adjusted for legally authorized revisions of the annual budget during the year.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g. purchase orders and contracts) outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because commitments will be reappropriated and honored during the subsequent year.

Annual Financial Statements: These financial statements are intended to reflect only the financial position and results of operations of the Redevelopment Agency of the City of Rocklin, California. The Agency is a component unit of and is included in the financial statements of the City. The financial statements of the City of are available at the City's finance department.

Estimates: The preparation of basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE B--CASH AND INVESTMENTS

The Agency's cash and cash equivalents consisted of the following as of June 30, 2004:

Unrestricted cash and cash equivalents	
Pooled cash and cash equivalents	\$ 767,543
Local Agency Investment Fund	<u>6,318,891</u>
	7,086,434
Restricted cash and cash equivalents	
Money market mutual fund	<u>1,674,386</u>
	<u>1,674,386</u>
Total cash and cash equivalents	<u>\$ 8,760,820</u>

The Agency participates in the City's cash and investment pool. These balances are stated at fair value. The Agency's share of the cash and investment pool is separately accounted for and interest earned is apportioned monthly based upon the relationship of its average daily cash balance to the total of the pooled cash and investments. The total amount invested by all public agencies in the City's cash and investment pool is \$76,693,275. The City Treasurer has oversight responsibility for the City's cash and investment pool. The value of pool shares in the City that may be withdrawn is determined on an amortized cost basis, which is different than the fair value of the Agency's position in the pool.

The Agency invests in the Local Agency Investment Fund (LAIF), a State of California external investment pool. Regulatory oversight for the pool is provided by the State of California. LAIF determines fair value on its investment portfolio based on market quotations for those securities where market quotations are readily available and based on amortized cost or best estimate for those securities where market value is not readily available. The fair value of the Agency's position in LAIF is the same as the value of the pool shares.

REDEVELOPMENT AGENCY OF
THE CITY OF ROCKLIN, CALIFORNIA

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2004

NOTE B--CASH AND INVESTMENTS (Continued)

The Agency's investments in LAIF are stated at fair value. The total amount invested by all public agencies in LAIF is \$57,600,699,158 and is managed by the State Treasurer. Of that amount, 98.4% percent is invested in non-derivative financial products and 1.6% in derivative financial products. The Local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board consists of five members as designated by State Statute. The value of pool shares in LAIF which may be withdrawn is determined on an amortized cost basis, which is different than the fair value of the Agency's position in the pool.

Carrying values of investment securities at June 30, 2004 are summarized as follows:

U.S. Government agency securities	\$ 3,145,838
U.S. Treasury security	<u>1,893,173</u>
Total investments	\$ <u>5,039,011</u>

The Agency's investments are stated at fair value and are categorized to give an indication of the level of credit risk assumed by the Agency at June 30, 2004. The Agency's investments are insured or registered, or the related securities are held by the Agency or its agent in the Agency's name and thus are credit risk Category 1 as defined by the GASB.

California statutes authorize Agencies to invest idle or surplus funds in a variety of credit instruments as provided for in the California Government Code, Section 53600, Chapter 4 – Financial Affairs. During the year ended June 30, 2004, the Agency's permissible investments included the following instruments:

- | | |
|----------------------------|--|
| - Certificates of Deposit | - Government Agency Securities |
| - Bankers Acceptances | - Passbook Savings Accounts |
| - Treasury Bills and Notes | - State of California Local Agency Investment Fund |
| - Commercial Papers | - Federal, State, and Local Agency Bonds |
| - Repurchase Agreements | - Reverse Repurchase Agreements |
| - Mutual Funds | - Collateralized Negotiable Securities |
| - Money Market Funds | - Mortgage Backed Securities |
| - Medium-term Notes | - Placer County Treasurer Investment Pool |

The Agency complied with the provisions of State statutes pertaining to the types of investments held, institutions in which deposits were made and security requirements. The Agency will continue to monitor compliance with applicable statutes pertaining to public deposits and investments.

NOTE C--NOTES RECEIVABLE

The Agency has made business loans to qualifying businesses in the redevelopment area and various loans to qualifying participants within the City. Notes receivable consist of the following:

Villa Serena II Loan – On July 24, 2001, the Agency entered into an agreement with Stanford Arms, a California Limited Partnership, for a loan in the amount of \$1,100,000. The loan has been used to finance the acquisition of real property located at Villa Serena Way and Park Dr. The loan is at 3% simple interest and is to be repaid from residual receipts over a thirty-year period. The loan is secured by a deed of trust covering the property, improvements, fixtures and by all deposits of the borrower.

REDEVELOPMENT AGENCY OF
THE CITY OF ROCKLIN, CALIFORNIA

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2004

NOTE C--NOTES RECEIVABLE (Continued)

Miscellaneous Housing Loans – The Agency maintains loans receivable for Low and Moderate Income Housing. Certain notes receivable payments are deferred with interest being capitalized and recorded in the respective principal balances. Interest on certain loans will be waived by the Agency if the loan remains outstanding for the full term.

A summary of the activity of notes receivable is as follows:

	Balance at June 30, 2003	Additions	Repayments	Balance at June 30, 2004
Special Revenue Fund:				
Villa Serena II	\$ 550,000	\$ 550,000		\$ 1,100,000
Miscellaneous	<u>24,947</u>	<u> </u>	\$ (11,550)	<u>13,397</u>
	574,947	550,000	(11,550)	1,113,397
Capital Projects Fund:				
Housing rehab loans	<u> </u>	<u>20,645</u>	<u> </u>	<u>20,645</u>
Total notes receivable	<u>\$ 574,947</u>	<u>\$ 570,645</u>	<u>\$ (11,550)</u>	<u>\$ 1,134,042</u>

NOTE D--CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2004, was as follows:

	Balance at July 1, 2003	Additions	Retirements	Balance at June 30, 2004
Capital assets, not being depreciated:				
Land	\$ 546,890	\$ 135,516		\$ 682,406
Construction in progress	<u> </u>	<u>882,358</u>	<u> </u>	<u>882,358</u>
Total capital assets, not being depreciated	<u>546,890</u>	<u>1,017,874</u>	<u> </u>	<u>1,564,764</u>
Total capital assets, net	<u>\$ 546,890</u>	<u>\$ 1,017,874</u>	<u> </u>	<u>\$ 1,564,764</u>

NOTE E--LONG-TERM LIABILITIES

The following is a summary of changes in long-term liabilities for the year ended June 30, 2004:

	Balance July 1, 2003	Additions	Repayments	Balance June 30, 2004	Due within one year	Due in more than one year
2002 Tax Allocation Bonds	\$ 13,400,000		\$ (105,000)	\$ 13,295,000	\$ 110,000	\$ 13,185,000
1997 Refunding Tax Allocation Bonds	2,975,000		(90,000)	2,885,000	90,000	2,795,000
Pass-through Obligation	<u>183,792</u>	<u> </u>	<u>(43,281)</u>	<u>140,511</u>	<u>45,012</u>	<u>95,500</u>
Total	<u>\$ 16,558,792</u>	<u> </u>	<u>\$ (238,281)</u>	<u>\$ 16,320,511</u>	<u>\$ 245,012</u>	<u>\$ 16,075,500</u>

REDEVELOPMENT AGENCY OF
THE CITY OF ROCKLIN, CALIFORNIA

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2004

NOTE E--LONG-TERM LIABILITIES (Continued)

Long-term debt consists of the following:

2002 Tax Allocation Bonds: On January 1, 2002, tax allocation bonds were issued, in the amount of \$13,730,000, to defease the 1994 tax allocation bonds of the Agency. The proceeds of the tax allocation bonds are being used to finance certain capital improvements within the Agency's project area. The bonds are payable from and secured by certain tax revenues payable to the Agency. Tax increment revenues are the sole revenue source pledged for repayment of this debt. Interest rates range from 4.60% to 5.50%. Principal payments ranging from \$95,000 to \$1,060,000 are payable annually on September 1 and interest payments ranging from \$57,338 to \$350,186 are payable semi-annually on March 1 and September 1 through September 1, 2032.

1997 Refunding Tax Allocation Bonds: On April 1, 1997 refunding tax allocation bonds were issued, in the amount of \$3,410,000, to defease the 1989 tax allocation bonds of the Agency. The tax allocation bonds are secured by a pledge of tax-increment revenues and deposits with a fiscal agent included in the reserve account. Interest rates range from 4.25% to 6.10%. Principal payments ranging from \$35,000 to \$390,000 are payable annually on September 1 and interest payments ranging from \$23,028 to \$85,305 are payable semi-annually on March 1 and September 1 through September 1, 2027.

Pass-through Obligation: As part of the establishment of the City's Redevelopment Plan in 1986, the Agency agreed to pass-through a portion of any incremental taxes it collects through fiscal year 1997 to the County, which preceded the Agency as the taxing authority in the Redevelopment Area. The agreement was revised upon adoption of the Plan Amendment in 1997. Payments of the amounts accumulated began in 1998 and are to be made in equal amounts over ten years, with interest at four percent.

The annual debt service requirements on the bonds are as follows:

Year Ending June 30	2002 Tax Allocation Bonds			1997 Refunding Tax Allocation Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2005	\$ 110,000	\$ 700,371	\$ 810,371	\$ 90,000	\$ 170,610	\$ 260,610
2006	95,000	695,311	790,311	95,000	165,845	260,845
2007	155,000	690,941	845,941	100,000	160,803	260,803
2008	190,000	683,766	873,766	110,000	155,403	265,403
2009	200,000	674,981	874,981	115,000	149,353	264,353
2010-2014	1,145,000	3,201,251	4,346,251	675,000	641,260	1,316,260
2015-2019	1,925,000	2,852,291	4,777,291	305,000	466,175	771,175
2020-2024	2,745,000	2,230,369	4,975,369	240,000	398,330	638,330
2025-2029	2,755,000	1,498,848	4,253,848	1,155,000	207,400	1,362,400
Thereafter	3,975,000	450,313	4,425,313			
Total	<u>\$ 13,295,000</u>	<u>\$ 13,678,442</u>	<u>\$ 26,973,442</u>	<u>\$ 2,885,000</u>	<u>\$ 2,515,179</u>	<u>\$ 5,400,179</u>

REDEVELOPMENT AGENCY OF
THE CITY OF ROCKLIN, CALIFORNIA

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2004

NOTE F--INTERFUND TRANSACTIONS WITH CITY

At June 30, 2004, the Agency owed the City \$202,126. This amount was loaned by the City to the Agency to pay debt service expenses. This loan will be paid off in following years from tax increment revenues.

As of June 30, 2004, the Agency had made \$53,000 in transfers to the City for engineering fees related to various projects within the City.

NOTE G--RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
GOVERNMENT-WIDE STATEMENT OF NET ASSETS

Amounts reported for governmental activities in the governmental funds balance sheet are being adjusted to arrive at the statement of net assets. The adjustments are as follows:

Total governmental fund balance	\$ 15,138,474
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the Governmental Funds' balance sheet.	1,564,764
Interest payable on a long-term debt does not require current financial resources and therefore interest payable is not reported as a liability Governmental Funds Balance Sheet.	(290,327)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the Governmental Funds' balance sheet.	<u>(16,320,512)</u>

NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ 92,399

NOTE H--RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES TO THE GOVERNMENT-WIDE
STATEMENT OF ACTIVITIES

Amounts reported for governmental activities in the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances are adjusted to arrive at the Statement of Activities for Government-wide presentation. The adjustments are as follows:

Net Change in Fund Balance – Total Governmental Funds	\$ 302,076
Governmental funds reported capital outlay as expenditures. However, in the Government-wide Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount of capital assets recorded in the current period.	1,017,874

REDEVELOPMENT AGENCY OF
THE CITY OF ROCKLIN, CALIFORNIA

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2004

NOTE H--RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES TO THE GOVERNMENT-WIDE
STATEMENT OF ACTIVITIES (Continued)

Interest expense on long-term debt is report in the Government-wide State of Activities and Changes in Net Assets, but they do not require the use of current financial resources. Therefore, interest expense is not reported as expenditures in Governmental Funds. The following amount represents the change in accrued interest from the prior year.

\$ 1,609

Repayment of principal is an expenditure in the Governmental Funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.

238,281

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES

\$ 1,559,840

COMPLIANCE REPORT

Richardson & Company

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

The Board of Directors
Redevelopment Agency of the City of Rocklin, California

We have audited the basic financial statements of the Redevelopment Agency of the City of Rocklin, California (the Agency) as of and for the year ended June 30, 2004, and have issued our report thereon dated November 8, 2004. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. Such provisions include those provisions of laws and regulations identified in the *Guidelines for Compliance Audits of California Redevelopment Agencies*, issued by the State Controller. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Agency's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the management, Board of Directors, and the State Controller's Office and is not intended and should not be used by anyone other than these specified parties.

Richardson & Company

November 8, 2004